

COLORADO ECONOMIC OUTLOOK

prepared for

COLORADO DEMOGRAPHY OFFICE

by

**Wilson D. Kendall, President
Center for Business & Economic Forecasting, Inc.**

June 1, 2004

**Center for Business and Economic Forecasting, Inc.
303-329-8491
Fax 303-329-8591
www.CBEF-Colorado.com**

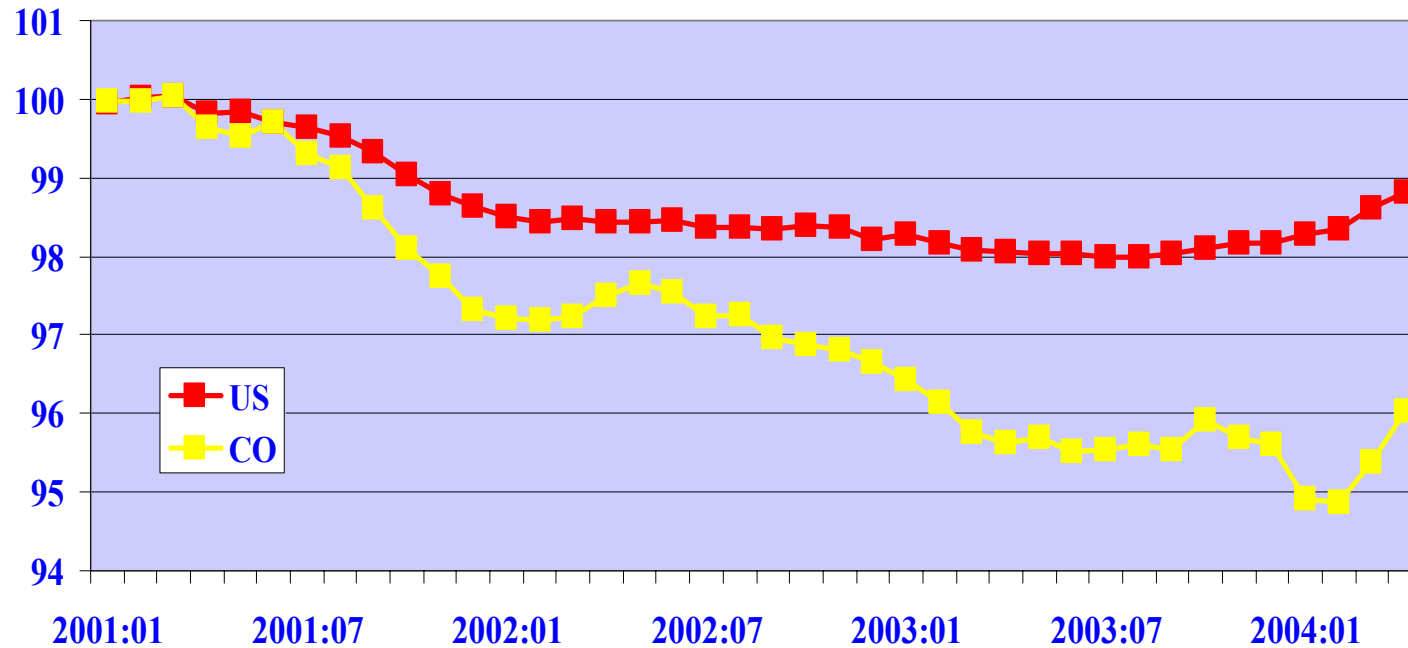
**1544 York Street Suite 220
Denver CO 80206
CBEF@CBEF-Colorado.com**

COLORADO'S RECOVERY LAGS

- **State lost more than 100,000 jobs in last 3 years; Still down 90,000 from peak despite strong March and April**
- **Colorado ranks near bottom in state growth rankings**
- **Real sales and income decline**
- **Real estate markets & construction activity lag**
- **Net negative migration into Colorado from within U.S.**

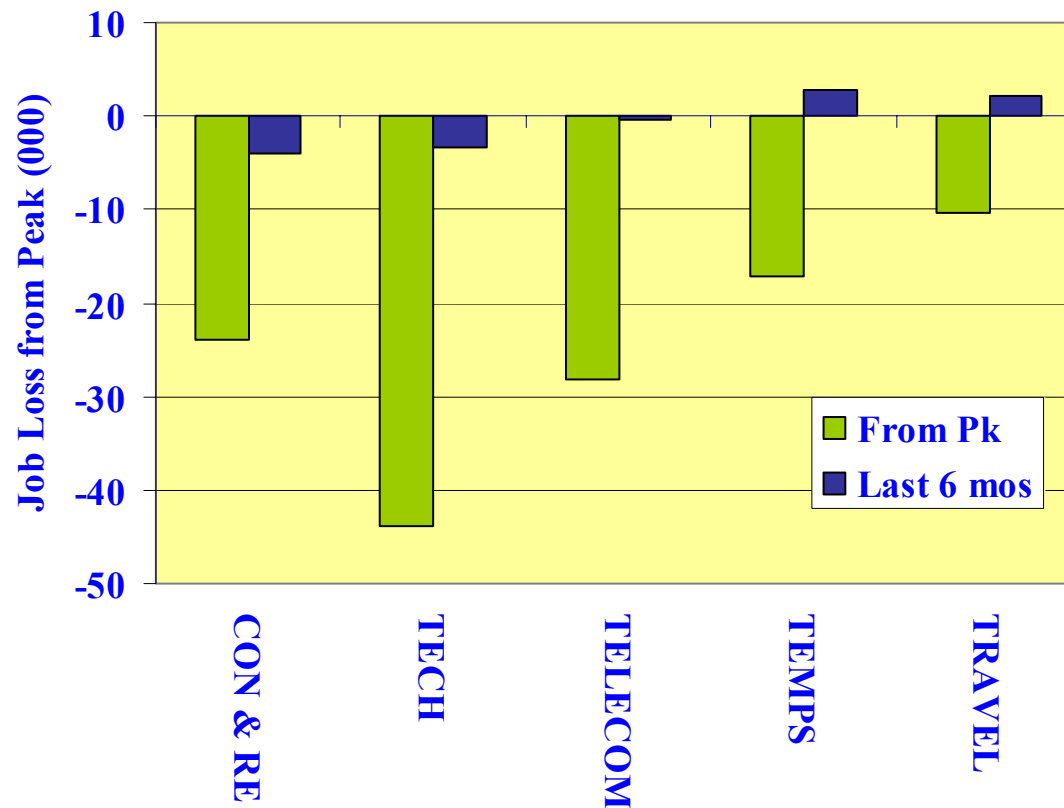
COLORADO'S JOB LOSS GREATER THAN U.S.
STATE JUST BEGINNING TO SHOW SIGNIFICANT
RECOVERY.

COLORADO & US JOBS (1ST QTR 2001=100)



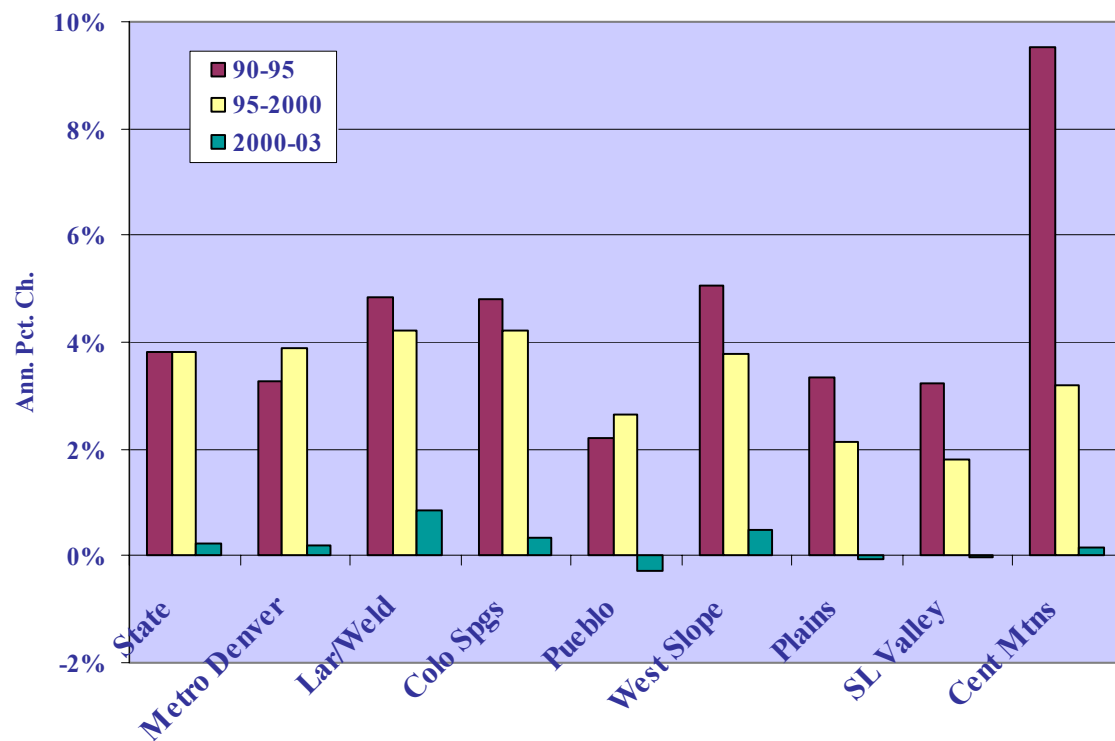
ALL KEY ELEMENTS OF COLORADO ECONOMY HAVE SEEN SIZABLE JOB LOSS BUT SHOW RECENT IMPROVEMENT

COLORADO JOB LOSSES BY SECTOR



GROWTH IN ALL REGIONS SLOWED SHARPLY IN THE LAST THREE YEARS

JOB GROWTH IN COLORADO'S REGIONS



WHY DID THE COLORADO ECONOMY DECLINE SO MUCH?

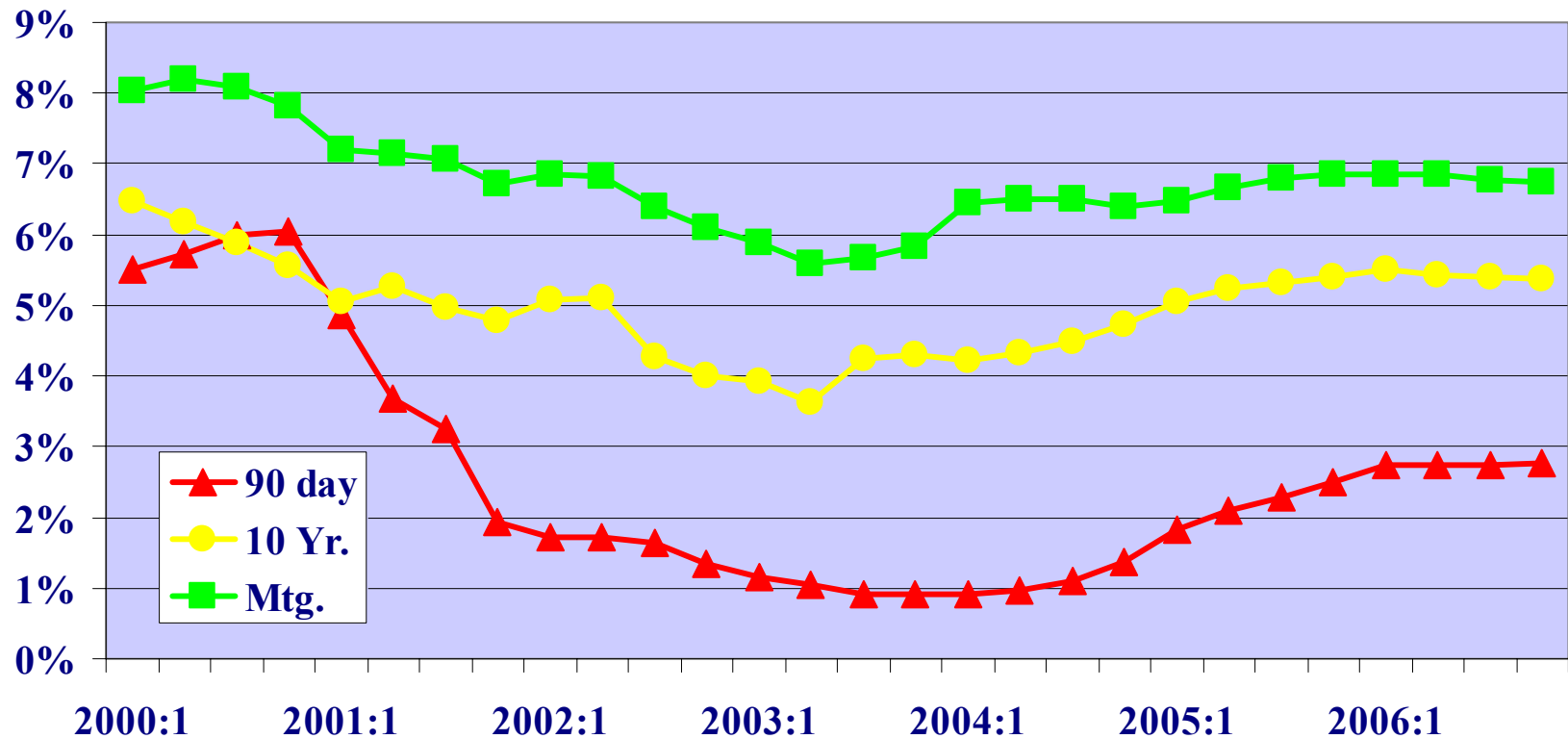
- **Declines in telecommunications and technology sectors**
- **Weakness in travel and tourism**
- **End of construction boom**
- **Slow recovery from recession for nation**
- **High relative costs**

U.S. OUTLOOK-HIGHLIGHTS

- **Solid recovery underway-output and jobs show robust gains**
- **Healthy consumer spending continues**
- **Spending on equipment and software will remain robust**
- **Residential real estate markets hold up well**
- **Interest rates to rise later in year**
- **Oil prices may slow recovery**
- **Inflation is beginning to pick up**
- **Rest of world is also recovering**

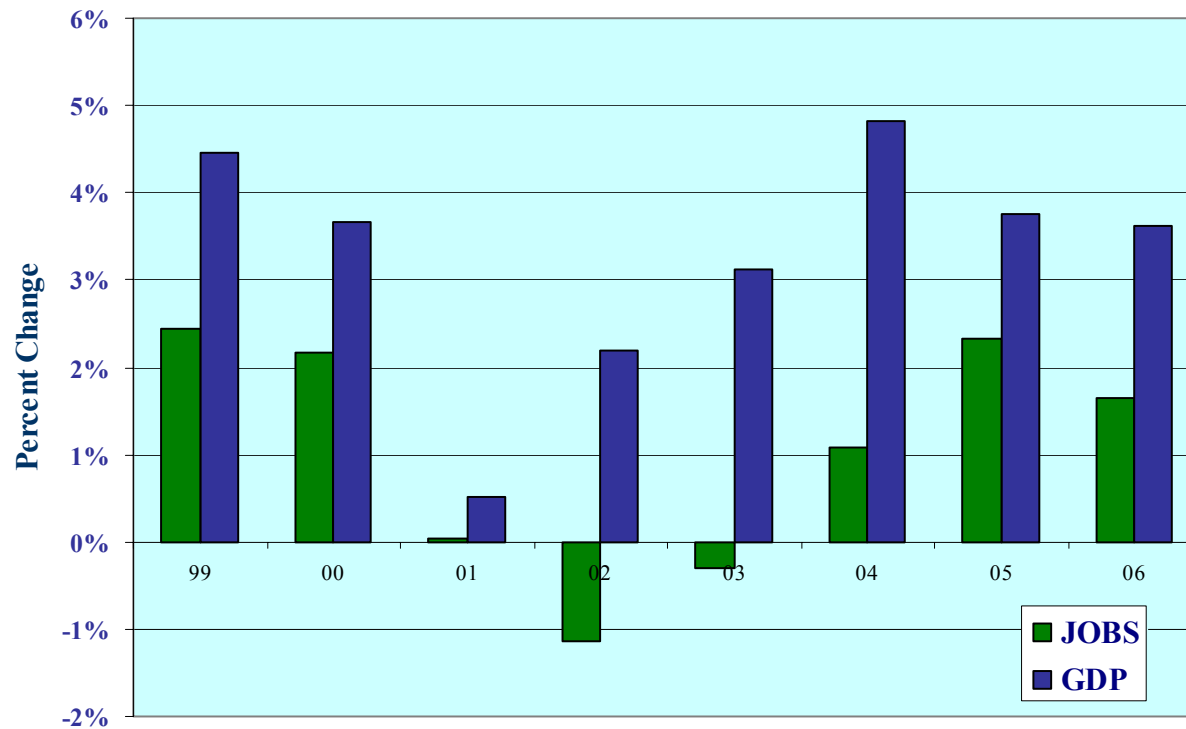
INTEREST RATES WILL MOVE UP FROM RECENT TROUGHS AS ECONOMY GETS STRONGER, BUT WILL REMAIN LOW BY HISTORIC STANDARDS.

KEY INTEREST RATES



U.S. OUTPUT AND JOB GROWTH TO PICK UP

US GDP AND JOB GROWTH



COLORADO OUTLOOK HIGHLIGHTS-I

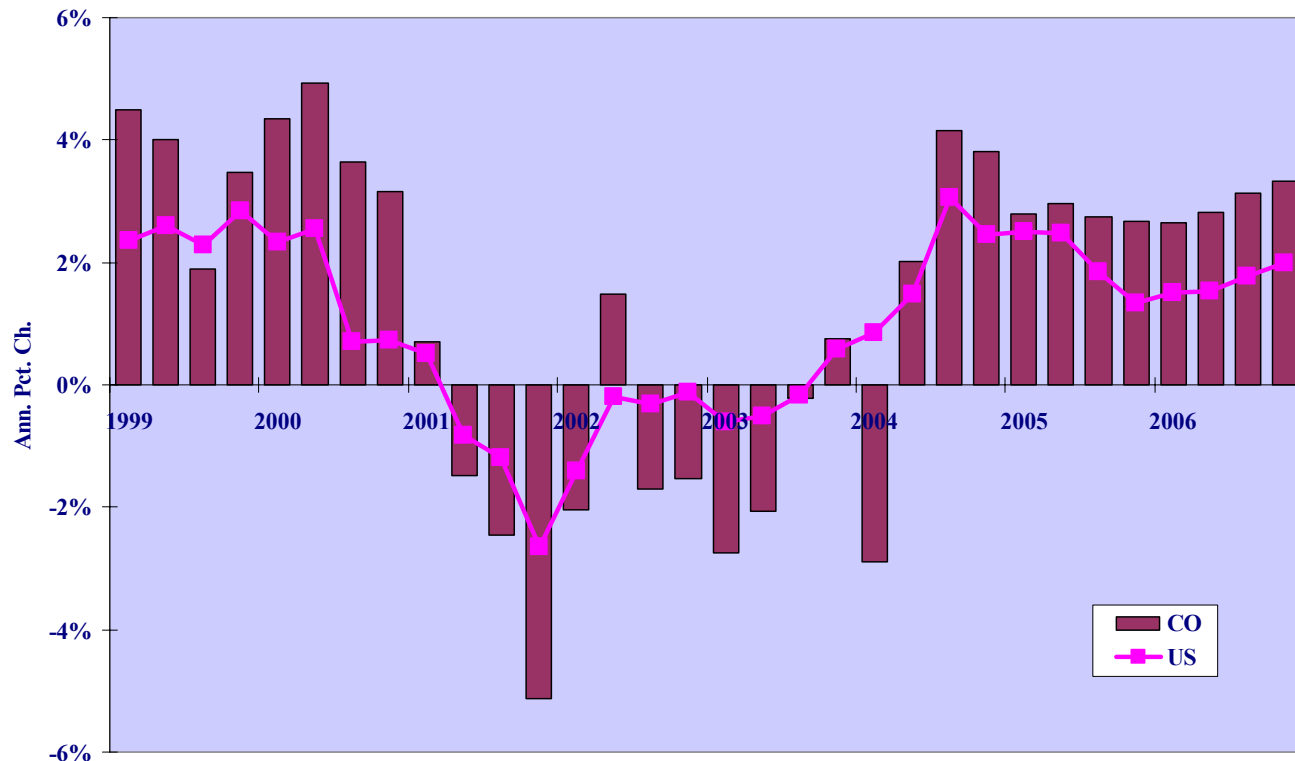
- **U.S economy posting solid gains; This will eventually benefit state**
- **Signs of improvement in Colorado in early 2004**
- **Single family markets holding up surprisingly well, but will weaken when rates rise**
- **Apartment market will remain soft**
- **Office recovery at least two years away**
- **Defense spending a source of strength**
- **High energy prices will help oil, gas and coal industries but hurt travel & tourism**
- **State & local government budget pictures will brighten**

COLORADO OUTLOOK HIGHLIGHTS-II

- **Tech industries showing signs of life & will add jobs later this year**
- **Telecom recovery still in distant future**
- **Migration remains low until job growth strengthens**
- **Positive job growth in 2004 with stronger gain in 2005**
- **Unemployment to gradually decline**
- **Retail spending will accelerate as income gains and labor market improves**
- **State growth will remain well short of that in 1990s**

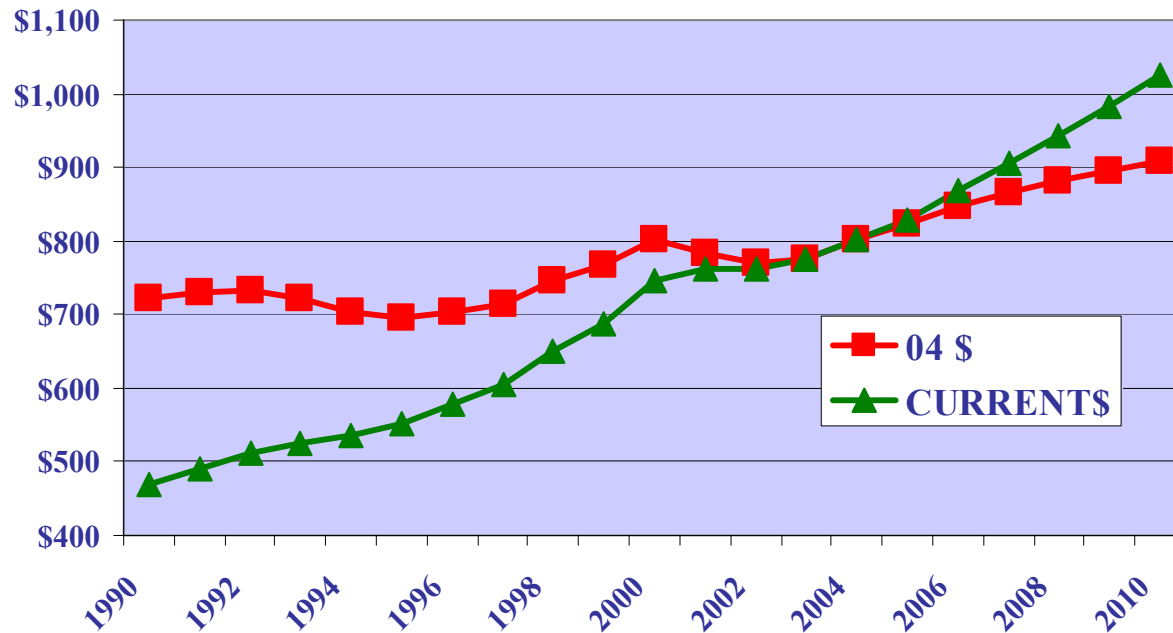
COLORADO JOB GROWTH HAS FALLEN SHORT OF U.S. FOR PAST THREE YEARS, BUT STATE SHOULD AGAIN EXCEED NATIONAL GROWTH BY LATE 2004

COLORADO & US QUARTERLY JOB GROWTH



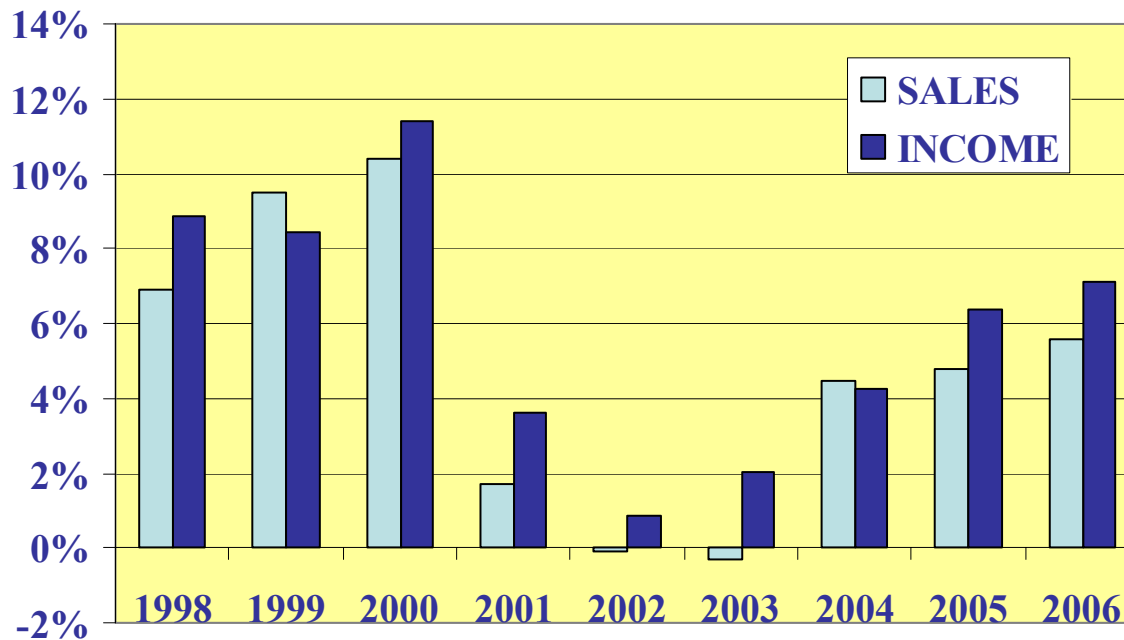
EARNINGS GROWTH RESUMES IN 2004 AFTER FALLING BEHIND INFLATION

COLORADO AVG WEEKLY EARNINGS PER WORKER



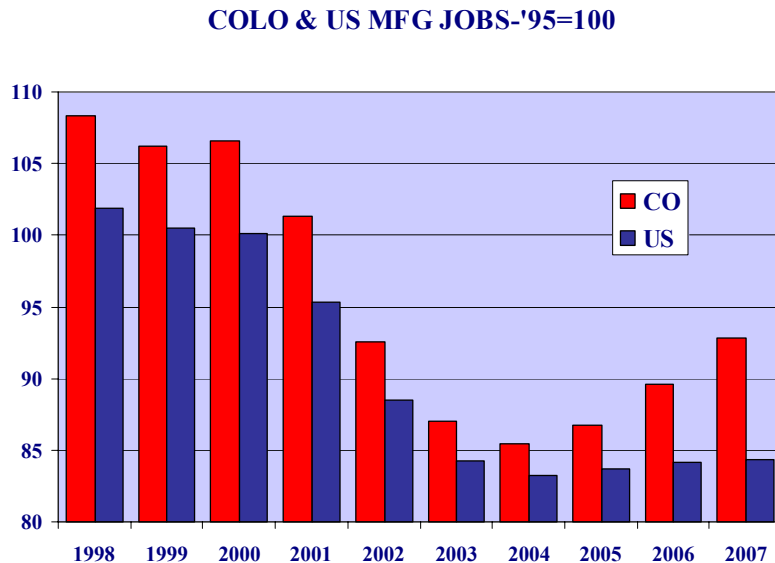
STATE RETAIL SALES FELL LAST TWO YEARS, BUT WILL REBOUND IN '04 AND '05.

COLO. GROWTH IN SALES AND PERSONAL INCOME



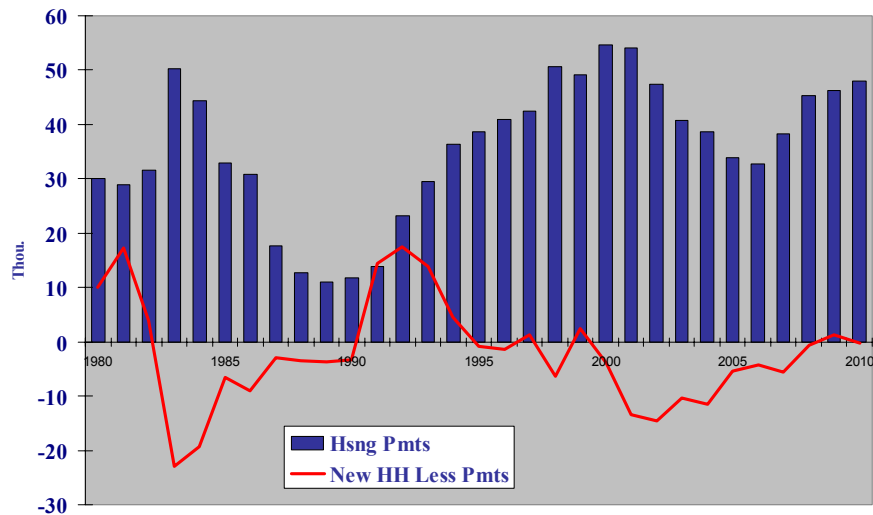
MANUFACTURING WILL SEE A GRADUAL RECOVERY

- U.S. Lost more than 3 million mfg jobs and state over 40,000
- Gains in technology and defense will stimulate Colorado recovery
- Jobs in sector unlikely to reach their previous U.S. peak
- Productivity growth & high costs will limit mfg. job gains

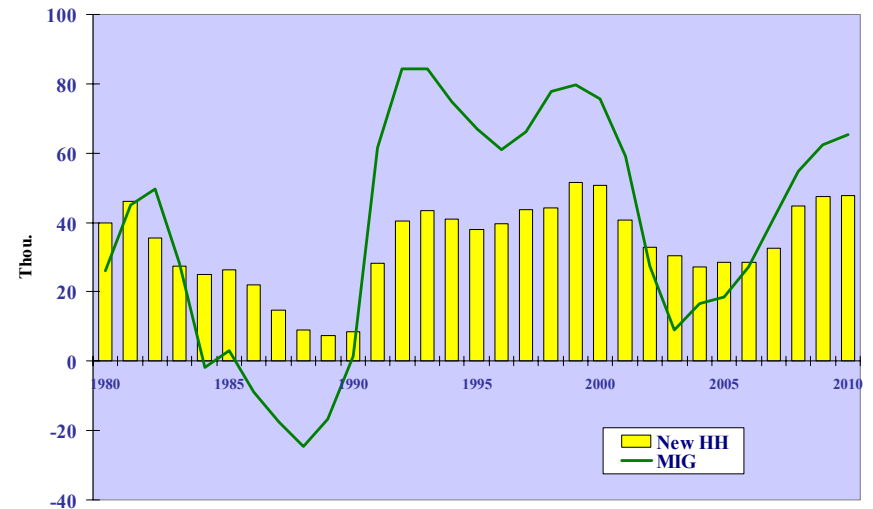


WHEN HOMEBUILDING IS OUT OF LINE WITH HOUSEHOLD GROWTH, A CORRECTION CAN BE EXPECTED

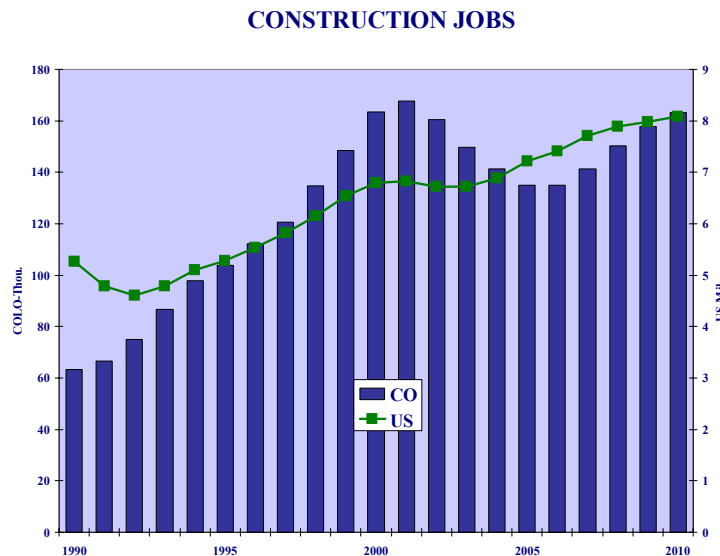
HOUSING SUPPLY & EXCESS DEMAND



HOUSING DEMAND & MIGRATION



END OF CONSTRUCTION BOOM A MAJOR FACTOR IN STATE DOWNTURN-A NEW CONSTRUCTION BOOM IS NOT ON HORIZON



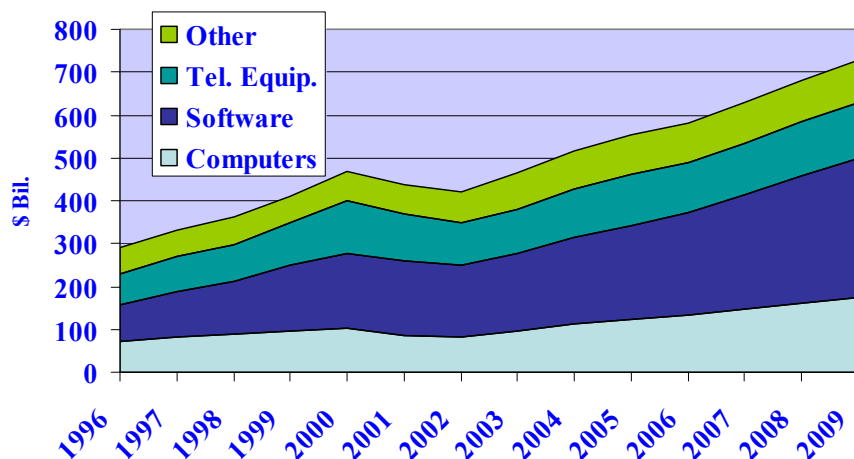
- The construction boom is over
- Colorado added 10,000 new construction per year during the 1990s
- Declines in office, other nonresidential and apartment construction caused 25,000 jobs to be lost in last 3 years.
- Further declines are anticipated before a mild rebound in the second half of this decade.

TRAVEL AND TOURISM LOOKING UP

- **Hotel occupancy rates and DIA traffic are improving**
- **Rising U.S. incomes should spur visits to state**
- **Drought and fire danger pose a threat**
- **High gas prices will discourage auto visitors and add to airline woes**
- **2004 should be best year since 2000**

COLORADO'S TECH SECTOR WILL GAIN FROM STRONGER BUSINESS SPENDING

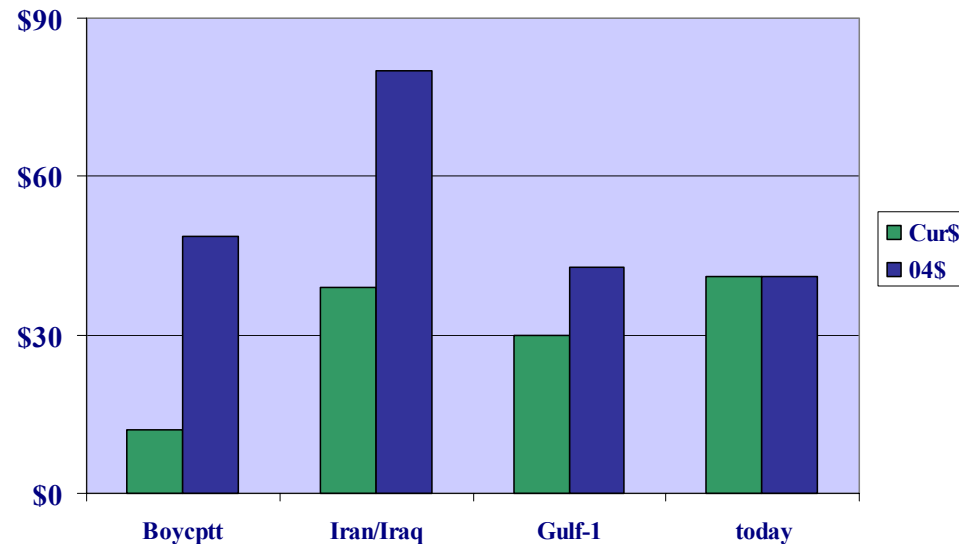
Investment in Info. Processing Equipment



- Capital spending recovering after long slump
- Stronger spending will benefit Colorado's tech sector
- Sector will also gain from defense outlays and weaker dollar
- Recent research suggests Denver it employment responsive to U.S. total investment

ANOTHER SURGE IN ENERGY PRICES STIMULATES PRODUCTION IN STATE

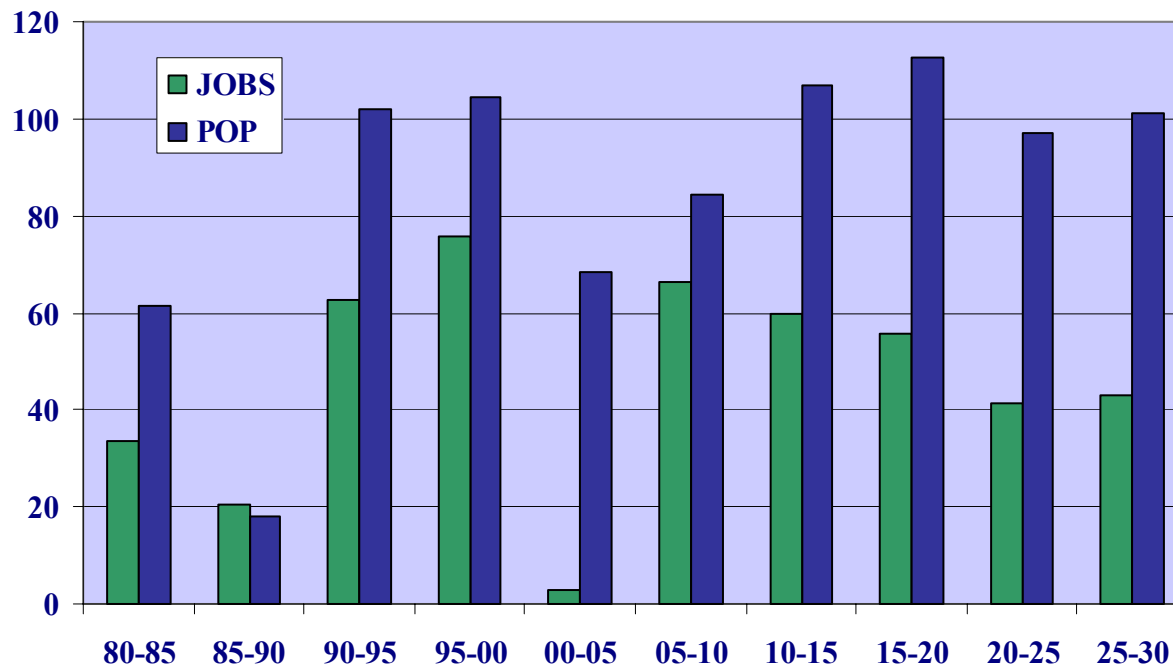
OIL PRICE PEAKS-CURRENT & '04\$



- High gas prices mean record drilling activity
- State coal production reaches all time peak
- A new state energy boom *a la* early 80s unlikely
- High gas prices will harm Colorado travel and tourism

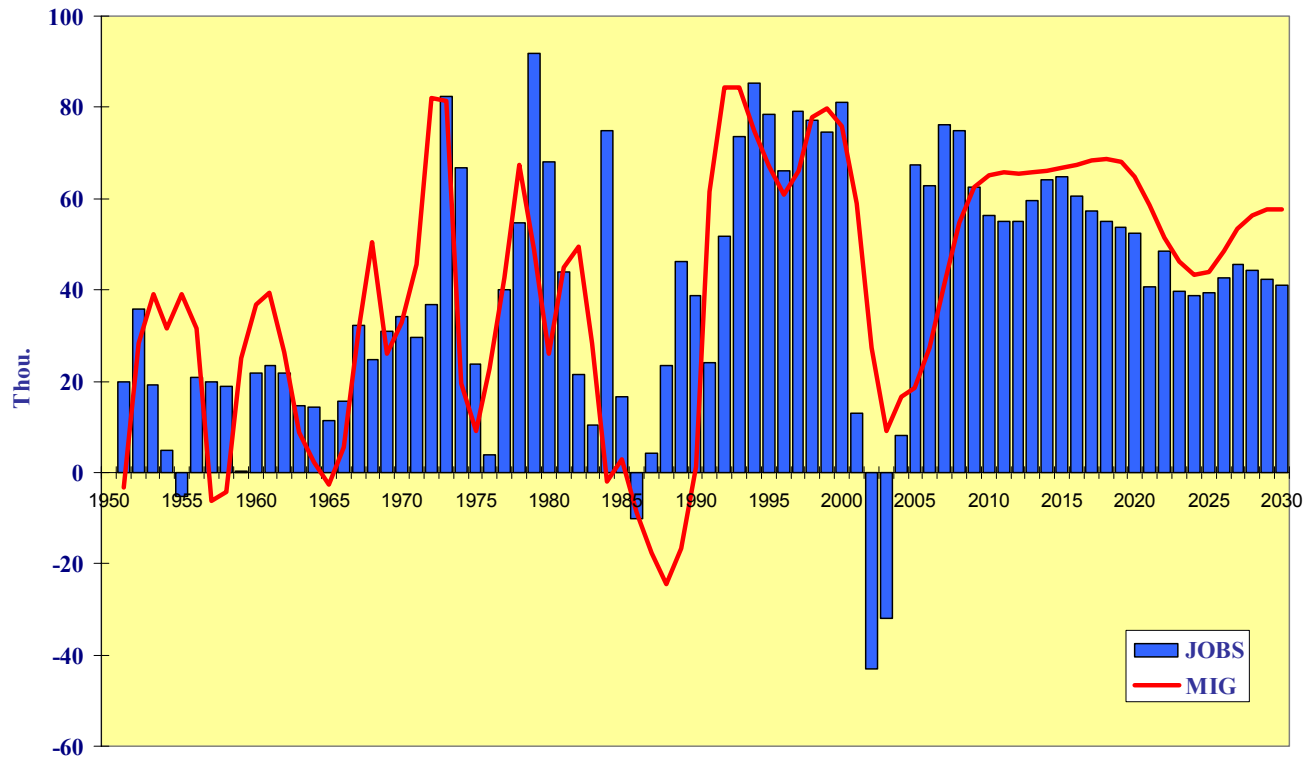
JOB GROWTH WILL SLOW OVER NEXT QUARTER CENTURY; POPULATION GROWTH SLOWS LESS DUE TO NEED TO REPLACE OLDER WORKERS

COLORADO ANNUAL JOB & POPULATION GROWTH



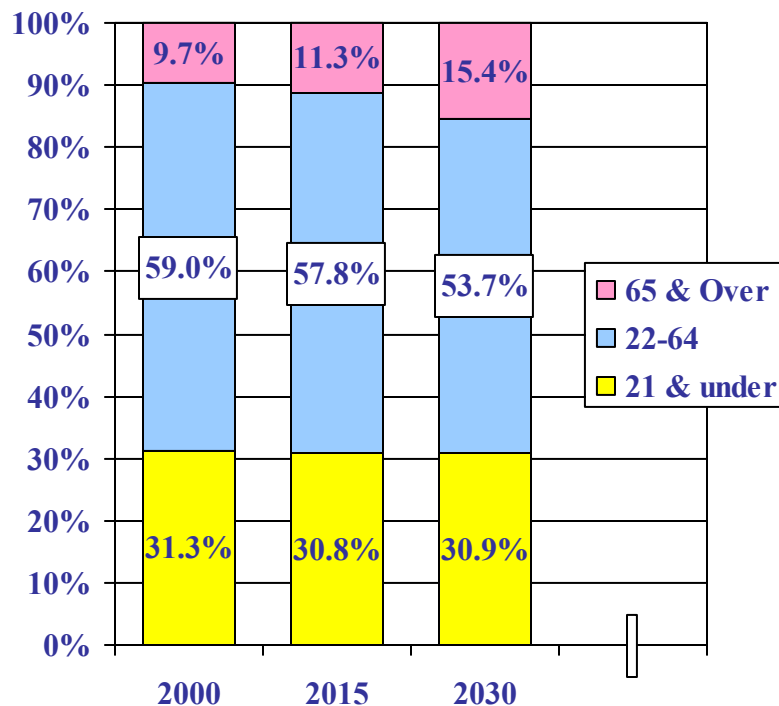
COLORADO MIGRATION DRIVEN BY NEW JOBS

COLORADO JOB GROWTH & NET MIGRATION

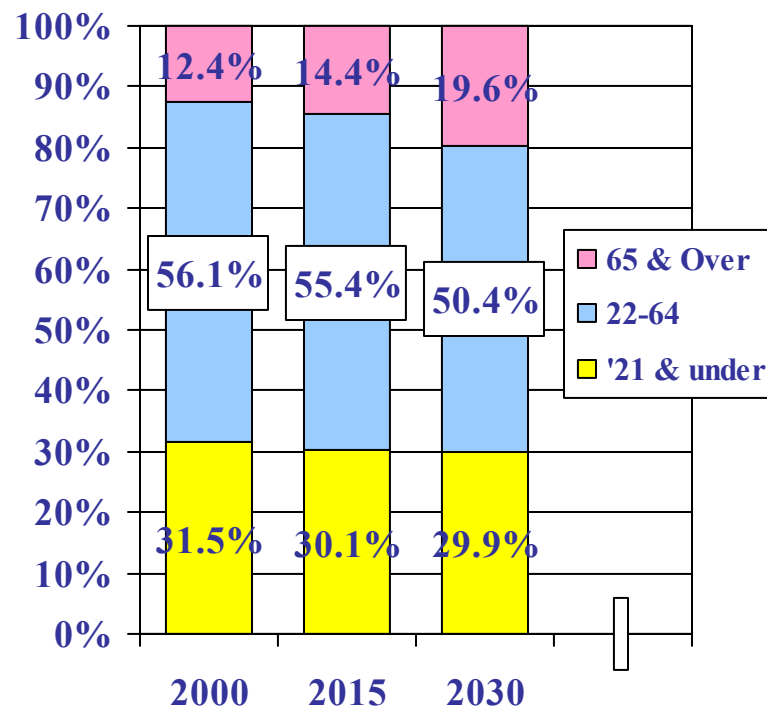


BOTH STATE AND NATIONAL POPULATIONS WILL GET OLDER OVER NEXT 25 YEARS

AGE DISTRIBUTION OF COLO POPULATION



AGE DISTRIBUTION OF US POPULATION



COLORADO FORECAST

-KEY VARIABLES

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Jobs-Pct Ch.	0.6%	-1.9%	-1.5%	0.4%	3.1%	2.8%
Mfg. Jobs-Pct. Ch.	-4.9%	-8.7%	-6.0%	-1.9%	1.5%	3.3%
Personal Income-Pct Ch.	3.6%	0.8%	2.0%	4.3%	6.3%	7.1%
Real Personal Inc.-Pct Ch	-0.8%	-1.2%	1.2%	4.3%	5.5%	5.5%
Unemployment Rate	3.7%	5.7%	6.0%	5.3%	5.0%	4.9%

COLORADO FORECAST

-KEY VARIABLES (cont.)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Housing Permits (000)	54.2	47.4	40.7	38.6	33.9	32.7
Retail Sales-Pct. Ch.	1.7%	-0.1%	-0.3%	4.5%	4.7%	5.6%
Inflation-Pct Ch. Denver CPI	4.4%	2.1%	0.9%	0.0%	0.8%	1.5%
Population-Pct. Ch.	2.4%	1.7%	1.2%	1.1%	1.2%	1.3%
Net Migration (000)	59	28	9	16	18	29